

**REPORT OF THE AUDIT OF THE  
FORMER NICHOLAS COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**



**EDWARD B. HATCHETT, JR.**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER NICHOLAS COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Nicholas County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$1,166,821 for the districts for 2002 taxes, retaining commissions of \$47,166 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,117,835 to the districts for 2002 Taxes. Taxes of \$1,820 are due to the districts from the former Sheriff.

**Report Comments:**

- The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement
- The Former Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Honorable Charles Ring, Former Nicholas County Sheriff

Honorable Leonard "Dick" Garrett, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the former Nicholas County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Nicholas County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Nicholas County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Honorable Charles Ring, Former Nicholas County Sheriff

Honorable Leonard "Dick" Garrett, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 21, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement
- The Former Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
July 21, 2003



NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 202,926	\$ 173,236	\$ 598,797	\$ 224,549
Tangible Personal Property	5,481	3,404	13,342	16,289
Intangible Personal Property				49,394
Taxes Increased Through				
Erroneous Assessments	277	235	674	91
Franchise Corporation	14,920	11,960	36,767	
Additional Billings	1,268	711	3,782	1,402
Adjusted to Sheriff's Receipt	<u>(2)</u>	<u>2</u>		<u>(1)</u>
Gross Chargeable to Sheriff	<u>\$ 224,870</u>	<u>\$ 189,548</u>	<u>\$ 653,362</u>	<u>\$ 291,724</u>
<u>Credits</u>				
Exonerations	\$ 147	\$ 121	\$ 434	\$ 163
Discounts	2,898	2,419	8,514	3,518
Incoming Sheriff's Official Receipt	<u>29,229</u>	<u>26,063</u>	<u>86,264</u>	<u>32,913</u>
Total Credits	<u>\$ 32,274</u>	<u>\$ 28,603</u>	<u>\$ 95,212</u>	<u>\$ 36,594</u>
Taxes Collected	\$ 192,596	\$ 160,945	\$ 558,150	\$ 255,130
Less: Commissions *	<u>8,473</u>	<u>5,237</u>	<u>22,326</u>	<u>11,130</u>
Taxes Due	\$ 184,123	\$ 155,708	\$ 535,824	\$ 244,000
Taxes Paid	<u>183,752</u>	<u>155,361</u>	<u>534,863</u>	<u>243,859</u>
Due Districts as of		**		
Completion of Fieldwork	<u>\$ 371</u>	<u>\$ 347</u>	<u>\$ 961</u>	<u>\$ 141</u>

\*and\*\* See Page 4.

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
January 5, 2003  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	549,327
4% on	\$	558,150
1% on	\$	49,344

\*\* Special Taxing Districts:

Library District	\$	105
Health District		105
Fire District		137
		<hr/>
Due Districts	\$	<u><u>347</u></u>

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY  
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

NICHOLAS COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 5, 2003  
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ending June 30, 2003. Liens are effective when the tax bills become delinquent. The former Sheriff's collection period for these assessments was November 1, 2002 through January 5, 2003.

Note 4. Interest Income

The former Nicholas County Sheriff earned \$998 as interest income on 2002 taxes. As of January 5, 2003, the Sheriff owes \$111 in interest to the school district and \$78 in interest to his fee account.

## COMMENTS AND RECOMMENDATIONS



NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement

On January 14, 2003 the former Sheriff presented a listing of delinquent tax bills to the fiscal court as his settlement for 2002 Taxes. KRS 134.310 states, in part, "The sheriff shall annually settle his accounts for county and district taxes with the fiscal court after making settlement with the Revenue Cabinet. The report of the state and local settlement shall be filed with the county clerk's office and approved by the county judge/executive no later than September 1 of each year. The settlement shall show the amount of ad valorem tax collected, and an itemized statement of the money disbursed. The settlement shall be published pursuant to KRS 424." We recommend the former Sheriff prepare a tax settlement, file the settlement with the county clerk's office, present the settlement to the fiscal court and county judge/executive, and publish the settlement as required by KRS 134.310.

*Former Sheriff's Response:*

*I agree with the comment.*

The Former Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss

Based on available records, the former Sheriff did not execute bond prior to the collection of 2002 taxes. KRS 134.250 states, in part, "The sheriff shall annually, before he proceeds to collect the county levy, execute bond to the Commonwealth ... This bond shall be approved by the fiscal court, and when approved shall be recorded by the fiscal court in its minutes and filed by the fiscal court with the County Clerk." Since the Sheriff is no longer an elected official as of the audit report date, no recommendation will be made with regard to bonding requirements. However, we did communicate with the newly elected Sheriff about the need for a properly executed and recorded county revenue bond prior to the collection of taxes.

*Former Sheriff's Response:*

*I did obtain bond for 2002 taxes.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The internal control structure lacks adequate segregation of duties. There is a limited staff size that prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. Since the Sheriff is no longer an elected official as of the audit report date, no recommendations for implementing compensating controls to offset the lack of segregation of duties will be made. However, we did communicate with the newly elected Sheriff about the need for proper segregation of duties within his office.

*Former Sheriff's Response:*

*I agree with the comment.*

NICHOLAS COUNTY  
CHARLES RING, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of January 5, 2003  
(Continued)

PRIOR YEAR:

The Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement

This comment has not been corrected and is repeated in the current year report.

The Sheriff Should Implement Daily Cash Check-Out Procedures And Deposit Funds Intact On A Daily Basis

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This comment has been corrected.

Sheriff Should Obtain County Revenue Bond To Protect The County From Potential Loss

This comment has not been corrected and is repeated in the current year report.

Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated in the current year report.



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Nicholas County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated July 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the former Nicholas County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Prepare A Tax Settlement By September 1 And Publish The Settlement
- The Former Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Nicholas County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. This reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 21, 2003

